

## ASX ANNOUNCEMENT

20 February 2023

### Macmahon agrees terms for Batu Hijau Phase 8 and confirms FY23 EBIT(A) guidance

- **AMNT and Macmahon Indonesia have entered into final agreements to carry out the Phase 8 scope of work. Those arrangements to take effect on receipt of Macmahon shareholder approval**
- **Return on Capital fee of 15% on investment**
- **In addition, potential to earn up to US\$10.2 million KPI fee yearly based on overall project performance against project KPIs**
- **Third party financier arrangement in place for partial off balance sheet funding**
- **Improved margins, with pass through costs no longer grossed up into revenue. Although this will reduce revenue order book by removing pass-through costs (which do not contribute any margin), earnings for Phase 8 (with improved margins) are anticipated to be higher than under the existing contract for the corresponding period**
- **Shareholder approval to be sought at an extraordinary general meeting to be held on 27 March 2023**
- **FY23 guidance<sup>1</sup>:**
  - **Revenue of \$1.85bn - \$1.95bn (increased from \$1.6bn - \$1.7bn largely due to ongoing Batu Hijau Phase 7 zero margin cost recoveries and contract rise and fall adjustments across other projects)**
  - **Underlying EBIT(A) of \$105 million - \$125 million (unchanged)**

Macmahon Holdings Limited (ASX:MAH) (**Macmahon** or the **Company**) refers to the alliance style mining and leasing services agreement between its subsidiary, PT Macmahon Indonesia (**Macmahon Indonesia**), and PT Amman Mineral Nusa Tenggara (**AMNT**) in respect of AMNT's Batu Hijau mine. Batu Hijau is a large open pit, porphyry copper gold deposit located on Sumbawa Island in Indonesia and is a cornerstone project that underpins Macmahon's long term outlook.

<sup>1</sup> Guidance assumes an exchange rate of AUD:USD 0.72 and excludes one-off items and amortisation related to the GBF and Martabe acquisitions. Underlying EBIT(A) is earnings before interest, tax and customer contract amortisation from continuing operations and excludes various one-off items.



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Given the success of the Batu Hijau mining contract to date and AMNT's expected outlook for copper and gold prices, AMNT has made the decision to expand the Batu Hijau mine by undertaking a further cutback of the pit, known as Phase 8. Under the revised Batu Hijau Mine Plan, it is expected to extend in-pit mining to approximately June 2028.

In keeping with the life-of-mine nature of the existing contract between AMNT and Macmahon Indonesia, AMNT intends to maintain the engagement of Macmahon Indonesia as head mining services contractor for the Phase 8 expansion. Accordingly, AMNT and Macmahon Indonesia have entered into a new Mining and Leasing Services Contract under which (subject to Macmahon shareholder approval) Macmahon Indonesia will carry out the Phase 8 scope of work and continue with Phase 8 works currently underway, on updated commercial terms.

Factors relating to the Phase 8 expansion made it difficult to apply the current commercial framework under the existing mining and leasing services contract (executed in 2017 and amended in 2018) to the additional Phase 8 works. In particular, the original US\$145 million of equipment on site at Batu Hijau acquired in 2017 has been depreciated to nil over a five-year term. The written down value of all Macmahon owned equipment on site is an important driver of return for Macmahon given that Macmahon receives part of its remuneration as a return on capital employed.

Under the new arrangements, Macmahon Indonesia will acquire from AMNT certain Caterpillar equipment (including dozers and trucks) with an independently assessed market value of not more than US\$35 million, for use in performing the Phase 8 works and as security for the third party financier mentioned below. Macmahon Indonesia will also have the right (but not the obligation) to fund certain budgeted rebuilds or refurbishments of, and new components for, some of AMNT's plant and equipment, along with other capital expenditure (which may include new trucks or other new plant and equipment).

Macmahon Indonesia will recover its capital investment on the assets acquired from AMNT and the amounts funded on rebuilds, refurbishments and new equipment through monthly depreciation charges paid by AMNT over the expected useful life of each item (with the asset to be transferred back to AMNT once Macmahon Indonesia has recovered its full capital investment). Macmahon Indonesia will also earn a monthly return on capital fee equivalent to a 15% return on the average written down value of its capital investment.

In addition, Macmahon Indonesia will have the opportunity to earn KPI fees (of up to US\$5.1 million per 6-month period) based on overall project performance against project KPIs (although there is no certainty that any such KPI fees will become payable to Macmahon Indonesia).

Macmahon Indonesia also intends to implement third party funding arrangements under which Macmahon Indonesia would recover a portion of its capital expenditure immediately from a financier, and would then repay the financier via monthly repayments that approximate the monthly depreciation charges recovered from AMNT. The financier would, of course, charge a fee for this arrangement, but Macmahon Indonesia would only seek to obtain finance where

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the costs of the financing are significantly less than the return on capital fee payable to Macmahon Indonesia in respect of the financed equipment.

Replacing the existing mining and leasing services contract will result in the current Macmahon Indonesia mining fleet (which has now been fully repaid by AMNT and depreciated to nil) being transferred to AMNT in accordance with the termination provisions of the existing contract. Because AMNT is a substantial shareholder in Macmahon, these transfers, and some of the other arrangements noted above, require Macmahon shareholder approval.

A notice of meeting setting out further details in relation to the new arrangements and seeking shareholder approval will be released to ASX following this announcement. The notice of meeting is accompanied by an independent expert's report opining on whether the proposed arrangements with AMNT are fair and reasonable to non-associated shareholders. Shareholders are encouraged to read the notice of meeting and independent expert's report in full.

A summary of the key terms of the proposed new mining and leasing services contract with AMNT is set out in the Annexure to this announcement, with further detail contained in the notice of meeting referred to above.

The new commercial framework will, once approved, deliver a number of benefits to Macmahon including:

- confirmation of increased tenure at Batu Hijau given the Phase 8 expansion and resultant extension of mine life;
- furthering the relationship with AMNT, enhancing Macmahon's ability to pursue opportunities at Elang and other growth opportunities; and
- an ability for Macmahon Indonesia to provide a sustainable investment in equipment and/or major rebuilds at Batu Hijau which will permit Macmahon Indonesia to generate a return on capital fee.

While the exact detail of Macmahon's expected profitability under the new arrangements cannot be determined at this time (as profitability will depend on the level of capital ultimately invested by Macmahon Indonesia and whether KPI fees become payable), Macmahon confirms that based on its modelling the Mining and Leasing Services Contract is expected to:

- generate an EBIT margin and a return on capital employed that comfortably exceeds Macmahon's tender hurdle rates for similar contracts;
- deliver increased return on capital earnings over the life of Phase 8 equating to 15% of the average written down value from time to time of capital injected into the project<sup>2</sup>, compared to the return on capital earnings that would be generated under the existing mining and

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<sup>2</sup> For initial capital injected by Macmahon Indonesia of US\$25 million, depreciated over the period to 30 June 2028, this would deliver an estimated return on capital of US\$3.4 million for the first 12 months and approximately US\$10.3 million over the project term to 30 June 2028. Similarly, every additional US\$1 million of capital invested would attract a 15% return on capital based on the average written down value monthly.

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leasing services contract for the corresponding period (which for the initial investment of US\$145 million in 2017 is nil from 1 August 2022, given that Macmahon Indonesia has recouped a depreciation fee from AMNT equal to the original cost of that equipment);

- provide an opportunity to earn a management fee of up to US\$5.1 million for each six-month period, based on achieving project KPIs<sup>3</sup>, which could equate to US\$56.1 million over the remaining anticipated term if all KPIs were achieved each year. These potential management fees are significantly higher than the potential management fees that could be earned under the existing mining and leasing services contract;
- result in the removal of zero margin recoverable cost revenue which will reduce overall project revenues and Macmahon's order book from 1 January 2023 to 30 June 2028 by approximately US\$500 million; and
- result in Phase 8 (and the cashflows to be received under it) providing an attractive uplift in post-tax net present value for Macmahon, in excess of the current Phase 7 contract over the remaining contract term, due to the ability to invest in sustaining capital and earn a 15% return on this investment. Macmahon Indonesia (at Macmahon Indonesia's election) currently expects to incur approximately US\$25 million - US\$35 million of on balance sheet sustaining capex per year during Phase 8.

The new arrangements also involve other changes to the existing arrangements between Macmahon Indonesia and AMNT, as summarised in the notice of meeting.

### FY23 Full Year Guidance<sup>4</sup>

The Company's revenue guidance for FY23 is now expected to be in the range of \$1.85 billion - \$1.95 billion (previously \$1.6 billion - \$1.7 billion) and reflects the continued inclusion of certain direct costs passed through at zero margin on the Batu Hijau Phase 7 contract, and contract cost-escalation recoveries across other contracts. FY23 underlying EBIT(A) guidance remains unchanged and is expected to be in the range of \$105 million - \$125 million.

Macmahon's Managing Director and CEO Michael Finnegan said:

*"AMNT has a world class asset and our relationship with them at Batu Hijau is highly valued. Phase 8 is an important opportunity to continue our relationship. Pleasingly, with the support of AMNT, we have been able to simplify the contract to remove zero margin revenue which will enhance operating margin, reduce working capital investment and improve our return on capital during the expected 5.5-year life extension.*

*During the term of the contract, we also have flexibility to discuss how much capital to invest and with the agreed return of 15% on capital invested, this determines how much earnings are generated. This extension will generate improved project earnings, cash flows and financial*

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<sup>3</sup> Details regarding the project KPIs are included in the Notice of Meeting at paragraph 4(b).

<sup>4</sup> Guidance assumes an exchange rate of AUD:USD 0.72 and excludes one-off items and amortisation related to the GBF and Martabe acquisitions. Underlying EBIT(A) is earnings before interest, tax and customer contract amortisation from continuing operations and excludes various one-off items.



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*returns that support our capital allocation and investment when compared to the existing contract.*

*We look forward to continuing our relationship with AMNT at their highly productive, world class Batu Hijau operation and with a partner who values technology and ESG. I would also like to thank our team, in particular our Chief Financial Officer Ursula Lummis, for their efforts in positioning Macmahon to win the Phase 8 expansion work.”*

**\*\*\* ENDS \*\*\***

This announcement was authorised for release by the Board of Directors.

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## **About Macmahon**

*Macmahon is an ASX listed company offering the complete package of mining services to miners throughout Australia and South East Asia.*

*Macmahon’s extensive experience in both surface and underground mining has established the Company as the contractor of choice for resources projects across a range of locations and commodity sectors.*

*Macmahon is focused on developing respectful relationships with its clients whereby both parties work in an open, flexible and transparent way to ensure mutually beneficial outcomes whilst also minimising risks for both parties.*

Visit [www.macmahon.com.au](http://www.macmahon.com.au) for more information.

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## Annexure – Key terms of proposed new mining and leasing services contract with AMNT

1.	<b>Parties</b>	PT Amman Mineral Nusa Tenggara ( <b>AMNT</b> )  PT Macmahon Indonesia ( <b>Macmahon Indonesia</b> )
2.	<b>General Summary</b>	<p>Agreement to provide mining and leasing services to AMNT at AMNT's Batu Hijau Mine (<b>Renewed Mining Contract</b>).</p> <p>The Renewed Mining Contract replaces the existing contract for the provision of mining and leasing services executed in May 2017, as varied on or about April 2018, which will be terminated as part of the renewal arrangements.</p> <p>Macmahon Indonesia to provide:</p> <ul style="list-style-type: none"> <li>• mining services comprising earth moving and mining services using both Macmahon Indonesia's equipment and AMNT-supplied facilities, but excluding excavation and loading of ore; and</li> <li>• leasing services whereby Macmahon Indonesia will be leasing plant and equipment to AMNT and providing sufficient personnel to enable AMNT to carry out AMNT's scope of activities.</li> </ul>
3.	<b>Commencement Date</b>	1 January 2023 or such later date as the Conditions are satisfied.
4.	<b>Term</b>	From the commencement date until the end of the Batu Hijau life of mine (currently estimated as 30 June 2028) or as terminated in accordance with the terms of the Renewed Mining Contract.
5.	<b>Conditions</b>	The Renewed Mining Contract is not operative (except for the "operative carve outs" discussed below) until the following Conditions have been satisfied:

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		<p>(a) shareholder approval by Macmahon Shareholders - see notice of meeting to be released following this announcement;</p> <p>(b) the consent of Macmahon’s financiers under Macmahon’s syndicated facility agreement (which condition has already been satisfied);</p> <p>(c) the determination by an independent valuer of the current market value of certain equipment to be purchased from AMNT and that market value subsequently being agreed by Macmahon Indonesia and AMNT;</p> <p>(d) the execution of the agreement terminating the existing mining and leasing services contract for Batu Hijau (which condition has already been satisfied, although the termination will only become effective once the other Conditions are satisfied); and</p> <p>(e) the mine plan and control budget for the Batu Hijau Mine for calendar year 2023 being finalised and agreed by Macmahon Indonesia and AMNT.</p> <p>Conditions must be satisfied within 90 days of the Renewed Mining Contract being signed, otherwise either party may terminate the Renewed Mining Contract.</p>
6.	<b>Operative carve outs</b>	Subject to the Condition relating to shareholder approval being satisfied, the provision described below relating to passing of ownership of Macmahon Indonesia’s Plant and Equipment to AMNT becomes operative notwithstanding that the other Conditions have not yet been satisfied
7.	<b>AMNT Equipment</b>	Under the Renewed Mining Contract, subject to satisfaction or waiver of the Conditions, Macmahon Indonesia will acquire certain Caterpillar equipment (including dozers and trucks) with an independently assessed market value of not more than US\$35 million from AMNT for cash consideration

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8.	<b>Contract Price</b>	<p>The contract price for the mining and leasing services is comprised of:</p> <ul style="list-style-type: none"> <li>(a) the sum of all “Reimbursable Costs” incurred by Macmahon Indonesia in performing the mining services and the leasing services during the term;</li> <li>(b) the 15% return on capital fee and the potential KPI fee (if any) described in the announcement; and</li> <li>(c) any other amount due under the Renewed Mining Contract (which amount may be due to or from Macmahon Indonesia).</li> </ul>
9.	<b>Passing of ownership of Macmahon Indonesia's Plant and Equipment to AMNT</b>	<p>Once an item of Macmahon Indonesia's plant and Equipment has been depreciated to zero and Macmahon Indonesia has been paid in full by AMNT (as a Reimbursable Cost) for all ownership costs on that item, title and risk in that item of Macmahon Indonesia's plant and equipment passes to AMNT.</p>
10.	<b>Termination on Default</b>	<p>Each party has the right to terminate the Renewed Mining Contract for a breach where notice is given and such breach is not remedied within a specified time.</p>
11.	<b>Termination for Convenience by a Party</b>	<p>A party may terminate the Renewed Mining Contract in its absolute discretion by giving 60 days' notice to the other party. Compensation is payable to Macmahon Indonesia for termination.</p>
12.	<b>Limitations of Liability</b>	<p>Macmahon Indonesia has a limit of liability.</p>
13.	<b>Put and Call Options on termination</b>	<p>On termination of the Renewed Mining Contract, Macmahon Indonesia has a put option, and AMNT has a call option, in relation to each item of Macmahon Indonesia's plant and equipment used at the site in the performance of the services (<b>Relevant Asset</b>) which, if exercised, will require Macmahon Indonesia to sell and AMNT to purchase the Relevant Asset for the written</p>





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		down value of that asset as at the date of termination of the Renewed Mining Contract.
14.	<b>Acquisition of Relevant Assets on non-exercise of Put or Call Options</b>	If there remain any unexercised put options or call options at the end of the exercise period, each Relevant Asset the subject of those options must be acquired by AMNT for the written down value of that Relevant Asset.